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C O N F I D E N T I A L SECTION 01 OF 03 SOFIA 001339

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EUR FOR DAS BRYZA, SCA FOR PDAS MANN

E.O. 12958: DECL: 11/26/2017

TAGS: [ECON](#) [ENRG](#) [PGOV](#) [BG](#)

SUBJECT: SCENESETTER FOR VISIT OF EUR DAS BRYZA TO BULGARIA

REF: A. A) SOFIA 1325

[1](#)B. B) SOFIA 1312 AND PREVIOUS

Classified By: Ambassador John Beyrle for reasons 1.4(b) and (d).

[1](#)1. (C) Summary: Your visit to Sofia comes at a time when Bulgaria is rapidly signing deals to position itself as a future energy transit hub. Eager to produce deliverables for a January 2008 Putin visit and develop new revenue sources, Bulgaria is rushing into South Stream, in particular, without the necessary due diligence on long-term economic and security implications. The drive to sign deals with Russia also comes from the belief that if Bulgaria does not agree to participate, its neighbors will. Your visit will focus Bulgarian policy makers on U.S. views on Russian energy strategy, answer profound skepticism about Nabucco's prospects, and give solid counter-arguments to those who say there is no real alternative to dependence on Russian energy.

End Summary.

THE PROJECTS: HAPPINESS IS MULTIPLE PIPELINES -- ON BULGARIAN TERRITORY

[1](#)2. (C) South Stream - On November 8 in Moscow Minister of Economy and Energy Petar Dimitrov (who will be abroad during your visit) signed a declaration with Russia on the proposed South Stream pipeline (ref A). The one-page political statement leaves ownership and other important decisions to a future Intergovernmental Agreement (IGA), which Dimitrov pledged to sign in January during the Putin visit to Sofia (expected to take place January 18.) Our working level energy contacts tell us this does not leave sufficient time to negotiate a good deal for Bulgaria. The Bulgarians have not yet acted on our advice to hire outside legal counsel to advise them on the IGA development, although PM Stanishev told the Ambassador November 20 that he agreed outside counsel was needed. There appears to be little consideration about the economics of South Stream. Policymakers are giving no thought to whether Russia can actually provide sufficient gas for the pipeline at competitive prices. The politicians (and state-owned Bulgargaz) view the upcoming IGA on South Stream as a political document that can be signed even before serious thought is given to economic and technical feasibility studies, despite the fact that the IGA will likely spell out ownership structure of the part of the pipeline on Bulgarian territory. Bulgaria insists it will not go forward with the project unless South Stream involves a new, additional pipeline on Bulgarian territory (a clarification that Russia ultimately refused to include in the November 8 declaration) and that Bulgaria own majority shares of the pipeline on Bulgarian territory. It is critical that Bulgaria hold this line even in the rush to

produce a deliverable on South Stream by January.

13. (C) NABUCCO - The Bulgarians remain committed to Nabucco and state they do not see South Stream as a Nabucco competitor. At the same time, our contacts are expressing increasing skepticism about Nabucco's prospects and they use this skepticism as another justification about the need for South Stream. In October, Nabucco Coordinator Van Aartsen was in town, but his visit apparently did little to bolster confidence in Nabucco's future. (It did, however, result in Bulgaria's approval of the inclusion of Gaz de France and RWE into the project.) Your visit is key to re-building confidence in Nabucco (understanding of Azeri volumes is many months behind the reality of latest industry estimates) and to making the case that Russia is using South Stream to undermine Nabucco's prospects.

14. (C) Burgas-Alexandropolous (BAP) - On November 15 in Athens, Bulgarian, Greek and Russian participants in the proposed BAP oil pipeline signed a joint protocol that agrees to establish an international project company (IPC) registered in The Netherlands. The protocol also lays out a tiered decision-making structure on key issues, which is to be agreed upon by January 15 in exchange for Russian guarantees to fill the pipeline at levels needed to attract project finance. This agreement represents a breakthrough for the project after Russian insistence that the Bulgarians and Greeks (who each own 24.5 percent of the project, with Russia owning 51 percent) guarantee input for the pipeline brought negotiations to a halt two months ago. Our Bulgarian contacts suspect that Putin himself was responsible for the Russian about-face. The Bulgarians are extremely pleased with this deal and acknowledge the role their U.S.-based

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legal counsel had in securing it -- something we emphasize when we stress for the need for legal counsel on South Stream.

15. (C) AMBO - With BAP's progress, the AMBO pipeline project has lost some momentum. Still, Bulgaria remains committed to AMBO. On November 22 Deputy Ministers from the Bulgarian and Macedonian ministries responsible for AMBO signed a border crossing agreement for the project. Our AMBO contacts tell us they are still trying to secure financing (and commitments for input), and deny that recent BAP progress threatens AMBO's prospects.

#### OTHER ENERGY ISSUES

16. (C) BELENE - In 2006 the GOB selected Russian AtomstroyExport as the contractor for the new Belene nuclear plant. Bulgaria is keeping majority ownership of the plant, but is in the process of selecting a strategic investor for the other 49 percent. There are Belgian, German, Italian and Czech companies in the running. We have stated repeatedly that the choice of a Russian contractor for Belene decreased Bulgaria's bid for greater independence from Russian energy sources. The tender was managed by former Minister of Economy and Energy Rumen Ovcharov, who left office in June after a corruption scandal (but who is still widely believed to have strong influence on GOB energy policy.) Ovcharov's lack of transparency and Russian ties have led to the inescapable conclusion that the decision to choose Russia as the Belene contractor was linked to the renegotiation of Bulgaria's long-term gas contract with Gazprom in December 2006 (which was also Ovcharov's doing.) We have heard that Ovcharov, currently an MP in charge of the Parliament's Budget Committee, is also advising new Energy Minister Dimitrov, a newcomer to energy issues, on South Stream.

#### YOUR MEETINGS

17. (C) Prime Minister Sergei Stanishev, whom you met in November 2006, is a 41 year-old progressive Socialist. He is pro-west and understands that Bulgaria is overly dependent on Russian energy supplies, but sees Bulgaria has having few

options for greater energy independence. We want him to come away from his meeting with you determined to hire outside legal counsel for South Stream before Bulgarian signs any additional documents, more knowledgeable about Nabucco's prospects and realistic about Russia's attempts to use South Stream to undermine Nabucco.

¶18. (C) Minister for Regional Development Asen Gagauzov, whom you also met in 2006, is in charge of BAP and AMBO, but also sits on the South Stream Working Group. In the past Gagauzov has expressed concerns about Russian motives on South Stream, telling the Ambassador November 19 that he thinks Russia intends to use the pipeline to divert gas from Ukraine and Belarus, not to increase supplies to Europe. He will see the meeting with you as a chance to understand the U.S. view of Russia's energy strategy. He'll also likely ask about CPC developments and Chevron's possible future involvement in BAP, although we understand Chevron has not been in touch with the Bulgarians recently.

¶19. (C) Bulgargaz Chief Executive Director Lyubomir Denchev has held his current position with the wholly-state-owned company since March 2007. He is believed to have close ties to former Energy Minister Ovcharov. Bulgargaz will be the Bulgarian implementer of South Stream, is one of two Bulgarian companies involved in BAP and is the Bulgarian partner in Nabucco. Our contacts tell us that Bulgargaz has its eyes set on expansion (to Macedonia and Albania) and eventual privatization (which would undoubtedly attract Russian bidders.) In addition to South Stream and BAP, Bulgargaz is considering the construction of an LNG terminal either on the Aegean coast or on the Black Sea. In recent meetings our Bulgargaz contacts have inquired about Iran and the U.S. view of OMV's Iran deal. Bulgargaz has close ties to Russia and Gazprom, and has expressed more skepticism about Nabucco (to us, at least) than should be expected from a Nabucco partner.

¶10. (C) Your visit will also highlight, through meetings, press events and your presentation at the energy security conference sponsored by the Center for the Study of Democracy, the need for Bulgaria to focus on a long-term energy strategy not solely based on the transit of hydrocarbons, but on the development of renewables, biofuels

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and greater energy efficiency. Bulgaria will never be completely energy independent, but, as one of the most energy-inefficient economies in Europe, it can make meaningful strides toward greater diversity away from Russian energy sources. With the price of oil pushing USD 100/barrel, Russia's hydrocarbon-generated wealth is increasingly circulating through the Bulgarian economy, making Bulgaria all the more susceptible to Russian leverage. We estimate that the bottom line of Russian energy deals, if fully consummated, would be close to USD 10 billion; even a one percent dirty money leakage would inject USD 100 million into a weak rule of law environment. An energy strategy that focuses on renewables and efficiency is one tool Bulgaria can use to put a noticeable dent in negative Russian influence here. More strategically, it would help Bulgaria keep its sights on transatlanticism and its society and economy on a trajectory that values and practices rule of law norms.

Beyrle